

Virginia
Drinking Water State Revolving Fund Program

Report For
State Fiscal Year 2005
July 1, 2004 through June 30, 2005

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I. INTRODUCTION

The time period of July 1, 2004 through June 30, 2005 (state fiscal year 2005) covered by this report indicates activities building on previous years success. First loan offers were made in June 1998. This report illustrates the status of the Drinking Water State Revolving Fund (DWSRF) Program by describing the progress made toward long and short-term goals, the sources and uses of funds, financial status of the DWSRF Program, and compliance with federal requirements.

The highlight accomplishment is the fact that in just over 7 years the Office of Drinking Water (ODW) has been awarded nine federal EPA capitalization grants bringing the total to \$133.3 million, and has received general fund support for the required 20% state matching dollars. ODW was awarded the 2005 capitalization grant in June 2005.

We made significant progress in achieving our objectives. The progress is indicated by ODW issuing its ninth Intended Use Plan that earmarks funds for construction projects which now total 148 and provides funding for many set-aside activities. Seventeen (17) projects totaling \$10.7 million were closed during this reporting period, bringing the total of closings to \$127.7 million. As of September 30, 2005, we have closed 124 projects for a total of **\$130,119,837**.

State Fiscal Year	# of Binding Commitments	Amount
1998	1	\$ 4,000,000
1999	3	\$ 8,000,000
2000	15	\$ 15,114,517
2001	20	\$ 24,584,781
2002	30	\$ 33,827,968
2003	19	\$ 19,875,065
2004	16	\$ 11,667,041
2005	17	\$ 10,654,508
Total	121	\$ 127,723,880

ODW's numerous set aside activities provide opportunities for waterworks to enhance their endeavors to provide safe water. As of June 30, 2005, ODW has awarded 104 planning grants to enable small waterworks to better plan for needed projects and prepare themselves for the future. ODW contracts with various organizations to provide targeted waterworks with services such as business plan development and source water protection. ODW scholarships for operator and management training professional development seminars and other training efforts provide knowledge at the local level to increase waterworks capability to operate waterworks over the long term.

ODW wants to highlight the "Valley Ridge" and "Town of Big Stone Gap" construction projects that closed during the reporting period.

Alleghany County received \$250,000 in DWSRF funding for the Valley Ridge project to install approximately 7,110 LF of 10-inch water line, 80 LF of 6-inch water line, a master meter and vault, and a flow control valve. This project connected the Valley Ridge waterworks to Alleghany County's water system thereby eliminating the use of Valley Ridge's spring that had been determined to be groundwater under the direct influence of surface water. The Valley Ridge system which served a high school, a vocational center, a medical center, and 174 residential connections was in violation of Virginia's

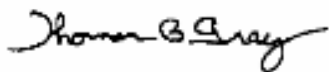
Waterworks Regulations and was on a boil water notice. This project resulted in the elimination of this non-complaint water system.

The Town of Big Stone Gap in Wise County received \$1,235,222 in DWSRF funding for the Big Stone Gap/City of Norton Regional Interconnect. This project also received \$500,000 in grant funding from the Appalachian Regional Commission and \$55,000 from the LENOWISCO Planning District Commission Coalfield Regional Water funds. The project consists of the installation of approximately 20,200 LF of 8" ductile iron water line, pressure reducing stations, and a 100,000 gallon water storage tank. This interconnection project will result in increased reliability for over 3,000 connections in both the Town of Big Stone Gap and the City of Norton. In addition, this is the last link in the Lee County - Wise County portion of the Virginia Coalfield Regional Water Supply study, a regional effort to interconnect water supplies for increased reliability. Also, this project will provide safe reliable drinking water to 36 homes located between Big Stone Gap and Norton which currently are served by inadequate individual private wells or springs.

Many challenges face waterworks and we will strive to create opportunities to improve Virginia's drinking water and to achieve the full potential of the SDWA funding and authority and other funds made available to us. Additional funds are available through the Virginia Water Supply Assistance Grant Fund (WSAGF) which consists of all state dollars and became available July 1, 2000. This funding compliments and supplements the SDWA funds. As of June 30, 2005, \$7.2 million in funds have been made available in the WSAGF.

ODW's overall goal is to ensure that Virginians are among the healthiest people in the nation. This Program's numerous activities support this by ensuring that waterworks will survive over the long term while providing safe, affordable drinking water.

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas B. Gray". The signature is fluid and cursive, with the first name "Thomas" being more prominent than the last name "Gray".

Thomas B. Gray, P.E.
Program Director

II. GOALS AND ACCOMPLISHMENTS

We developed the goals discussed below for the 2005 Intended Use Plan (IUP). Our long-term goals provide a framework that guides our management decisions for the DWRSF Program. Our short-term goals support the implementation of the program's long-term goals. The overall goal of ODW in administering the capitalization grant is to provide a comprehensive and integrated technical and financial assistance program to waterworks owners through a balanced approach of using set-aside funding and construction loan funds to:

A. Progress Toward Long-Term Goals

1. *Help assure that Virginians will be the healthiest people in the nation, in regards to drinking water.*
2. *Protect the public health and welfare by planning and directing activities that assure adequate water quantity and quality are provided to users of waterworks.*
3. *Assist waterworks owners in complying with federal and state mandated drinking water regulations through both programmatic and construction assistance.*
6. *Assist waterworks owners in correcting health problems related to drinking water through both programmatic and construction assistance.*

Progress Toward Goals 1, 2, 3 and 6: We developed a Program that utilized the capitalization grant in two distinct categories; (i) non-project funds or set-asides and (ii) project funds to be utilized for construction at public drinking water systems (waterworks). Set-aside funds were used to enhance the ability of the state and owners of waterworks to ensure a waterworks' long-term capacity to produce safe drinking water and to protect construction loan investments. Specific set-asides are discussed later in this report. Construction funds for waterworks were targeted to address public health problems and to ensure compliance with the provisions of the SDWA.

In addition, the SDWA authorized Virginia to establish a special demonstration project to loan funds to a regional endowment to "...finance new drinking water facilities..." in Southwest Virginia. The Coalfield Water Development Fund, Inc. (CWDF) was established for this purpose and a total of \$10 million has been provided to the endowment.

4. **Assist and encourage waterworks owners to develop strategies to develop and maintain the capacity (adequate managerial, technical and financial capability and well-trained operators) to provide safe drinking water for the long term.**

Progress Toward Goal 4: We continued our contracted services to provide hands-on assistance in developing Comprehensive Business Plans for waterworks focusing on SNC's, disadvantaged waterworks, new waterworks, waterworks serving less than 3,300 persons and those ranking high on the loan application list. A capacity development strategy was developed and is being fully implemented.

5. *Assist waterworks owners in the protection of their source waters by developing or assisting to develop source water protection programs.*

Progress Toward Goal 5: We have the responsibility to conduct assessments of all water sources which includes source water protection area delineations, inventories of certain contamination sources and determinations of susceptibility. We continued the contracted services for educating waterworks about source water protection and in developing and implementing their protection programs.

7. Aggressively market the available drinking water programmatic and construction assistance, to assist waterworks owners and consumers.

Progress Toward Goal 7: In addition to the mail out of applications for construction funds and set-aside suggestions, mail outs for the Planning and Design Grants and the 1452(k) loans for source water protection activities were accomplished. All of the Planning District Commissions (PDC) were provided information concerning the program. Other forums (VRWA conference, etc.) were used to promote the program. In addition, we held six funding workshops throughout the state in February and March 2005 to discuss the DWSRF program and how to complete the various applications.

ODW field offices provided information on specific waterworks to target for various aspects of the Program.

The various applications, checklists, etc. were placed on the ODW web site. (www.vdh.virginia.gov/dw)

B. Progress Toward Short-Term Goals

1. *Receive each year's DWSRF Program money as soon as possible from EPA so citizens of Virginia may benefit.*

Progress Toward Goal 1: ODW's solicitation to help develop the 2005 Intended Use Plan (IUP) was made in January 2004. Our 2005 application was submitted to EPA in December 2004. EPA awarded the 2004 grant in July 2004 and the 2005 grant in June 2005. ODW solicited to help develop the 2006 Intended Use Plan (IUP) in January 2005.

2. *Assist waterworks owners by creating innovative technical assistance programs.*

Progress Toward Goal 2: We continued the Planning and Design Grant Program which has been most helpful to the small, rural, financially stressed waterworks which have not traditionally been exposed to the SDWA requirements or who needed small amounts of grant money (up to \$25,000 per project) to develop preliminary engineering reports, plans and specifications, source water quality and quantity studies, etc. Many of these grants have allowed them to expedite the preparation of applications for DWSRF Program, USDA Rural Development, and other construction funding.

3. *Promote consolidation and regionalization of water supplies and waterworks through both programmatic and construction assistance.*

Progress Toward Goal 3: The DWSRF Program's construction assistance was designed to encourage regionalization by providing more points for projects that consolidate waterworks. The capacity development Comprehensive Business Plan package encourages waterworks to consider consolidation in the planning process.

4. *Provide a source of low cost financing for drinking water needs.*

Progress Toward Goal 4: We designed a loan package where the maximum interest rate is 1% less than the AA municipal 20 year revenue bond rate. We fully incorporated affordability criteria into the construction assistance ranking system and utilized the maximum amount of loan forgiveness. Special consideration is given for disadvantaged communities. The Planning and Design grants will further reduce the necessary financing amounts for projects proceeding to construction.

5. *Ensure that all new Community and Nontransient Noncommunity water systems beginning operation after October 1, 1999, have the technical, financial, and managerial capacity with respect to each national primary drinking water standard in effect, or likely to be in effect, on the date of starting operations.*

Progress Toward Goal 5: We developed a Capacity Development Strategy, subsequently approved by EPA, which described the authority and procedures used to ensure new Community and Nontransient Noncommunity waterworks have the technical, financial, and managerial capacity prior to beginning operation.

6. *Ensure that operator certification regulations meeting EPA national requirements are applied and that coordination is provided to provide training courses; but especially for the low classifications needed at the smaller waterworks.*

Progress Toward Goal 6: EPA approved Virginia's Operator Certification Program (OCP) in July 2001. EPA has awarded the full award of \$3,598,800 to Virginia for the Operator Certification Expense Reimbursement Grant. Per letter dated September 21, 2004, EPA determined that in fiscal year 2004 VDH continued to successfully implement Virginia's OCP. As a result, it was not necessary to withhold any of Virginia's fiscal year 2005 allotment for the DWSRF grant. ODW submitted the annual Operator Certification report in June 2005.

DWSRF PROGRAM SET-ASIDE AND LOAN PROJECTS ACTIVITIES

A. Sources of DWSRF Program Funds

As of June 30, 2005, ODW has received nine capitalization grants totaling \$133,347,300. EPA awarded the 2005 grant award of \$11,449,600 to ODW in June 2005. ODW is required to provide state matching funds equal to 20% of the each capitalization grant. ODW has a cumulative state match appropriation of \$31,723,180, including \$2.29 million appropriated in state fiscal year 2005. The 2004 capitalization grant was included as a source of funds in state fiscal year 2005 since it was received during the reporting period. All of the principal repayments, interest repayments, and interest earnings have not been included in an IUP. The Virginia Department of Environmental Quality transferred \$1 million in loan repayments from their Water Facilities Revolving Fund to ODW's DWSRF Program in August 2002. Beginning with the 2004 capitalization grant, administrative loan fees are being collected on projects that close with an interest rate. The administrative loan fees are fifty one-hundredths percent (.50%) per annum and are included as part of the interest rate. As of June 30, 2005, only 2 projects have initiated administrative loan fee payments. **Table 1** shows the capitalization grant awards and other sources of funding received during this reporting period.

TABLE 1: ALLOCATION OF FUNDS			
I. SOURCES OF FUNDS	2005	Previous	Cumulative
Capitalization Grant	\$22,923,500	\$110,423,800	\$133,347,300
20% State Match	2,289,920	18,491,060	20,780,980
State Funds- Deferred Match	0	5,888,480	5,888,480
Additional State Funds	0	5,053,720	5,053,720
Principal Repayments	2,465,519	3,766,872	6,232,391
Interest Repayments	505,553	1,528,887	2,034,440
Interest Earned on Investments	140,816	138,821	279,637
Transfer from Water Facilities Revolving Fund (CWSRF)	0	1,000,000	1,000,000
Administrative Loan Fees and Interest	1,511	0	1,511
TOTAL	\$28,326,819	\$146,291,640	\$174,618,459
II. USES OF FUNDS			
A. DWSRF LOAN ACCOUNT BINDING COMMITMENTS			
Standard Loans 1452(a)	\$0	\$1,333,975	\$1,333,975
Small Systems 1452(a)(2)			
Standard		13,810,347	13,810,347
Disadvantaged Communities 1452(d)	795,428	101,784,130	102,579,558
Small System Subtotal:	795,428	115,594,477	116,389,905
Endowment – Coalfield Water Development Fund	0	10,000,000	10,000,000
Closed Loan Subtotal:	795,428	126,928,452	127,723,880
Unclosed Loan Funds	13,339,931	12,055,522	25,395,453
Subtotal Loan Funds	14,135,359	138,983,974	153,119,333
B. SET-ASIDE ACCOUNT WORKPLAN COMMITMENTS			
1. Administration and Technical Assistance (max. 4%) 1452(g)(2)			
Administration	457,984	2,843,452	3,301,436
Technical Assistance	0	1,869,428	1,869,428
Administration and Technical Assistance Subtotal:	457,984	4,712,880	5,170,864
2. Technical Assistance (max. 2%) 1452(g)2	0	1,808,678	1,808,678
3. State Program Management (max. 10%) 1452(g)2			
PWSS Program	1,036,142	3,067,365	4,103,507
Source Protection	36,548	304,589	341,137
Operator Certification	72,270	311,384	383,654
Capacity Development	0	129,183	129,183
State Program Management Subtotal:	1,144,960	3,812,521	4,957,481
4. Local Assistance/Other State Programs (max.15%) 1452(k)			
Source Water Delineation and Assessment	0	2,944,240	2,944,240
Source Water Land Acquisition	0	0	0
Capacity Development	394,000	3,060,461	3,454,461
Wellhead Protection	50,000	0	50,000
Local Assistance/Other State Programs Subtotal:	444,000	6,004,701	6,448,701
Subtotal Set-Asides	2,046,944	16,338,780	18,385,724
TOTAL	\$16,182,303	\$155,322,754	\$171,505,057

B. Uses of DWSRF Program Funds

1. Allocation of DWSRF Program Funds

The capitalization grant is allocated between two categories: (1) construction project loan funds, which are to be utilized for construction at public drinking water systems, and (2) non-project funds or set-asides. For each capitalization grant award, ODW develops an Intended Use Plan (IUP) which describes how the State intends to use the available DWSRF Program funds for the year. The IUP also describes the amount of funds that will be used for these various activities. The IUPs were made available to the public for review and comment prior to being submitted to the U.S. Environmental Protection Agency (EPA).

The Safe Drinking Water Act Amendments of 1996 establish the capitalization grant percentage limits that can be spent for project loans and the four individual set-aside activity areas. The 20 percent state match is for use in awarding project loans. Up to 31 percent of the capitalization grant can be allocated to the four set-aside activities. The set-aside activities include up to 4 percent for administrative expenses, up to 10 percent for state program management, up to 2 percent for small system technical assistance, and up to 15 percent for local assistance and other state programs. ODW allocated a total of \$14,135,359 to project loan funds, which includes the 20% state match and \$2,046,944 to the set-asides in the 2005 IUP. **(Table 1)** The project loan funds allow up to 30% of each capitalization grant be used for principal forgiveness for communities that qualify as disadvantaged. ODW elected to allocate up to the entire 30%. **Table 5** shows the status of disadvantage assistance provided. **Table 2** shows the actual state fiscal year 2005 disbursements and cumulative disbursements. **Appendix B** shows construction project loan disbursements by individual project, by quarter, and by federal and state.

TABLE 2: DISBURSED DWSRF PROGRAM FUNDS BY STATE FISCAL YEAR			
USES OF DISBURSED FUNDS	State Fiscal Year 2005	Previous State Fiscal Years	Cumulative
A. PROJECT LOAN ACCOUNT			
Standard Loans 1452(a)	\$0	\$1,026,523	\$1,026,523
Small Systems 1452(a)(2)			
Standard	2,372,242	9,616,224	11,988,466
Disadvantaged Communities 1452(d)	9,731,232	85,476,577	95,207,809
Small System Subtotal:	12,103,474	95,092,801	107,196,275
Endowment – Coalfield Water Development Fund	0	10,000,000	10,000,000
Project Loan Subtotal:	12,103,474	106,119,324	118,222,798
B. SET-ASIDE ACCOUNT			
1. Administration and Technical Assistance (max. 4%) 1452(g)(2)			
Administration	443,784	2,116,167	2,559,591
Technical Assistance	167,904	1,333,352	1,501,256
Administration and Technical Assistance Subtotal:	611,688	3,449,519	4,061,207
2. Technical Assistance (max. 2%) 1452(g)(2)	182,098	1,051,797	1,233,895
3. State Program Management (max. 10%) 1452(g)(2)			
PWSS Program	916,314	2,175,947	3,092,261
Operator Certification	84,441	184,954	269,395
Capacity Development	0	97,429	97,429
Source Water Protection	35,631	209,004	244,635
State Program Management Subtotal:	1,036,386	2,667,334	3,703,720
4. Local Assistance/Other State Programs (max. 15%) 1452(k)			
Source Water Delineation and Assessment	0	2,944,240	2,944,240
Source Water Land Acquisition	0	0	0
Capacity Development	126,445	2,048,380	2,174,825
Local Assistance/Other State Programs Subtotal:	126,445	4,992,620	5,119,065
Set-Aside Subtotal:	1,956,617	12,161,270	14,117,887
C. Grand Total	\$14,060,091	\$118,280,594	\$132,340,685

2. Set-Aside Activity Status

Administration and Technical Assistance

The administrative expense set-aside is used for administration of the DWSRF Program and general technical assistance. ODW has eight employees to assist in administering the DWSRF Program, however all but one of these employees are being paid from other funding sources.

The administration of the DWSRF Program activities also includes banking type services of the project loans performed by the Virginia Resources Authority, annual audits performed by the State Auditor or their agent, and travel costs. The majority of funds paid from this set-aside, \$340,540 have been to the Virginia Resources Authority for credit evaluation and loan servicing for project loans. The State's Auditor of Public Accounts (APA) conducts an annual statewide single audit for the Commonwealth of Virginia in accordance with OMB Circular A-133. The APA is not planning to audit the DWSRF program as a "Major Federal Program" for the fiscal year ended June 30, 2005. A private CPA firm is engaged by the State's APA to perform an annual audit of the construction State Loan Fund. The Attorney General's Office has provided legal advice on agreements and contracts. During this reporting period, ODW has completed the following administrative activities:

- Solicitation of applications
- Conduct six funding workshops throughout the state
- Development of comprehensive list of projects
- Project selection and development of Intended Use Plan
- Preparation of Capitalization Grant Application
- Met with prospective recipients
- Evaluation of waterworks for technical, financial and managerial capacity
- Monitor/Administer project construction

Indirect costs were recovered in fiscal year 2005.

The technical assistance activities consisted of planning and design grants. Because of budget constraints in this set-aside, the planning and design grants have been moved to the Local Assistance set-aside.

Small Systems Technical Assistance

During state fiscal year 2005, ODW continued the contract with Olver, Inc. to work with waterworks in developing and implementing a Source Water Protection Program. This contractor assisted 11 waterworks in the development of a Source Water Protection Program during this reporting period. ODW renewed this contract in June 2005 covering the period of July 1, 2005 through June 30, 2006 for \$104,346.

ODW continued to contract with Virginia Polytechnic Institute and State University (VA Tech) to provide Professional Development Seminars to water utility owners, managers, and operators. ODW entered into another contract in May 2004 with VA Tech to conduct 11 Professional Development Seminars from June 2004 through June 2005 for \$172,425. During this reporting period, 8 seminars were held at no cost to the attendee and topics included such items as: (1) Fluoridation (2) Gravity Filters (3) Disinfection and (4) Emergency Management Planning for Extended Power Outages. These three hour seminars were broadcast simultaneously to 14 locations in Virginia. The sites are located throughout the Commonwealth so that they can be reached from the locality within an hour and 45 minutes. A total of

895 individuals attended these 8 seminars. Those attendees that score 80% or better on the quizzes given at the end of the classes are given CEUs. ODW entered into another contract with VA Tech to conduct 9 Professional Development seminars for the period of July 2005 – June 2006 for \$142,308. See VA Tech website <http://www.conted.vt.edu/cpewater/> for additional details.

ODW entered into a contract with VA Tech to develop and conduct a training program to replace the Small System Management Institute covering the period June 2005 through December 2005 for \$72,458. The training program is entitled, “Properly Funding Waterworks Needs: Revenue, Rates, and Grants.” VA Tech has established a focus group to develop the content of this training program. The focus of the program is to provide waterworks operators training in budgeting, setting rates, obtaining SRF funding and capitalizing on other available resources.

ODW provided four scholarships to waterworks operators totaling \$3,540 to attend the Fall 2004 Water Treatment Plant Operators Short Course. The Fall 2004 AWWA Management Institute was cancelled.

State Program Management

ODW used these funds to supplement the State Public Water Supply Supervision (PWSS) Program, develop and implement a capacity development program, and develop and implement an operator certification program.

a. State Program Management: Source Water Protection Program Administration

ODW’s geologist continued to coordinate the efforts needed by the state to oversee source water activities.

Indirect costs were recovered in fiscal year 2005.

b. State Program Management: Public Water Supply Supervision (PWSS) Program

ODW continued to support the courier system to get required samples to the State Lab.

ODW continued employing a part-timer to assist in the process of implementing new federal rules.

ODW continued to support a contract for a part-time computer support technician.

ODW expended \$311,614 for a portion of the rent for the six field offices.

Indirect costs were recovered in fiscal year 2005.

c. State Program Management: Capacity Development

Over the past four years, ODW has completed the following activities in ensuring a successful implementation of the Capacity Development Strategy:

- Developed and initiated a capacity development strategy plan as approved by the Environmental Protection Agency.
- Performed a baseline assessment of all Community and Nontransient-Noncommunity water works capacity.

- Incorporated baseline assessment data into a database.
- Began evaluation of data for allocation of ODW resources towards improvement.
- Established an Oversight Committee to aid in directing our resources.
- Utilized the contractual services of multiple organizations such as SE-RCAP, Mountain Empire Community College, and Virginia Tech.
- Established a committee to revise the Comprehensive Business Plan which aids in the evaluation of waterworks technical, managerial, and financial capabilities.

d. State Program Management: Operator Certification

Virginia has had a waterworks operator licensure law and regulations since 1971. Licensure is generally accepted as being more stringent than certification. The Department of Professional and Occupational Regulation Board administers the licensure law for Waterworks and Wastewater Work Operators. The Director of the Office of Drinking Water is a member of this licensure Board.

ODW submitted its Operator Certification Program in January 2001 in accordance with Section 1419(b) of the Safe Drinking Water Act. EPA approved the program in July 2001. EPA awarded 78.11% of the Operator Certification Expense Reimbursement Grant to Virginia in May 2002 and the remaining 21.89% in May 2003. ODW hired a full time coordinator for this grant in January 2003. ODW submitted the annual report of the status of the Operator Certification Program in June 2005.

ODW continued the contract with Mountain Empire Community College (MECC) for development and maintenance of the College's on-line distance learning Water Degree Program. ODW renewed this contract in June 2004 for \$92,000 covering the period of June 2004 through July 2005. In July 2005, ODW renewed the contract with MECC for \$38,270 covering the period of July 2005 – July 2006. (See <http://water.me.vccs.edu/> for additional information.)

ODW continued offering training scholarships grants for Mountain Empire Community College distance learning students wishing to become waterworks operators.

Local Assistance and Other State Programs

Virginia used funds from its local assistance set-aside for source water delineation and assessment and capacity development. Also, funds were made available for land acquisition for source water protection.

a. Local Assistance and Other State Programs - Source Water Delineation and Assessment

ODW continues to perform source water assessments on all new sources and when significant changes to sources require evaluation.

b. Local Assistance and Other State Programs – Capacity Development

ODW continued the contract with the Southeast Rural Community Assistance Project, Inc. (SERCAP) to provide hands-on assistance in developing Comprehensive Business Plans for existing waterworks. ODW renewed this contract in May 2004 to cover the period of July 1, 2004 through June 30, 2005 for \$97,260. We requested the focus be on the completion of Comprehensive Business Plans for the highest priority waterworks. Those identified were SNC's, disadvantaged waterworks, new waterworks, waterworks serving less than 3,300 persons and those ranking high on the loan application list. SERCAP 11 assisted waterworks. VDH

opted not to renew the contract with SERCAP when it expired on June 30, 2005 because funding reductions in the upcoming DWSRF grant awards resulting from the latest Needs Survey forced prioritization of activities.

ODW does not have any activity to report for the \$50,000 budgeted for leak detection grants.

ODW continues to offer planning and design grants to private and public owners of community waterworks as part of the general technical assistance. The 2005 IUP allocated \$344,000 for planning and design grants in this set-aside. These grants can be up to \$25,000 per project and are for small, rural, financially stressed, community waterworks serving fewer than 3,300 persons. Eligible costs may include preliminary engineering reports, design of plans and specifications, performance of source water quality and quantity studies, drilling test wells to determine source feasibility, or other similar technical assistance projects. For this reporting period, 13 planning grants for \$293,050 were awarded (**See Table 3**) and \$167,904 was disbursed.

TABLE 3: PLANNING GRANTS			
Owner Name	Project description	Population	Award Amount
Lee County PSA	Prepare PER and plans and specifications for Robbins Chapel Phase II waterline extension.	106	\$25,000
Augusta County Service Authority	Prepare PER and plans and specifications for the Deerfield Water Treatment Improvements which will include the installation of a membrane filtration unit, reworking of existing piping, controls, and water quality monitoring units.	135	\$25,000
Augusta County Service Authority	Design of August Springs Water Treatment Improvements which will include the installation of a membrane filtration unit, and reworking of the existing piping, controls, and water quality monitor units; compilation and review of pilot testing data with a report being prepared that summarizes the results and preparation of plans.	253	\$25,000
Town of Glen Lyn	Perform an initial leak survey with correlator study, assist the Town in developing mapping of the system, evaluate service meters, re-survey the distribution system, review the functionality of the water system, and verify that the existing system can handle the additional pressure. Prepare a PER.	151	\$15,000
Town of Jonesville	Perform a water treatment plant study consisting of evaluation of the current water treatment process to determine if the plant should be replace or modified, preparation of a plan of action to secure adequate water, re-evaluation of the current water source and evaluation of an emergency connection with the Lee County PSA. The study will develop a plan for the Town to use as a basis for pursuing the necessary plan upgrades and additions to bring the waterworks into compliance with the Waterworks regulations.	1,533	\$25,000
Giles County	Prepare a PER to evaluate possible alternatives for improving the quality of water in the proposed project area (Songer Town) which includes evaluation of the existing water system infrastructure, evaluation of the existing water source and possible solutions to improve the existing water quality, and the evaluation of possible improvement to the project area.	31	\$25,000

Town of Independence	Prepare a PER, environmental review, and a detailed water system map consisting of aerial photograph and base mapping, field mapping markup and mapping completion.	1,218	\$25,000
Town of Pamplin	Prepare a PER for water supply needs and alternatives and to plan for an overhaul of the water system elevated storage tank.	233	\$22,000
Floyd-Floyd County PSA	Perform pilot drilling of a previously identified well site, a 48 hour drawdown and yield test on the pilot well.	2,140	\$20,000
Town of Charlotte Court House	Prepare a study and PER on the Town's water system to be used as a basis for renovations and upgrades to the system.	463	\$25,000
Smyth County Board of Supervisors	Drill a new test well to determine if the site can provide a reliable source of water that meets the requirements to effectively operate the treatment facility at the Hutton Branch plant.	615	\$18,900
Town of Chilhowie	Prepare a PER to address water system deficiencies and identify improvement options to resolve low distribution system pressures, and to identify old water lines with leakage impacting water accountability.	1,496	\$20,000
Craig-New Castle Public Service Authority	Drill a new well and prepare plans and specifications to connect to new well.	1,238	\$22,150
	Total		\$293,050

c. Local Assistance and Other State Programs - Land Acquisition for Source Water Protection

No additional funding from this set-aside was provided for loans to public water systems for the purchase of land or conservation easements and for incentive-based voluntary protection measures.

No loans have been made to date. ODW transferred \$2,888,953 of unused land loan funds to construction project funding in fiscal year 2003. These funds were used to fund project identified in the 2001 IUP.

d. Local Assistance and Other State Programs – Wellhead Protection

ODW does not have any activity to report for \$50,000 for wellhead protection.

SET-ASIDE UTILIZATION CHARTS

SET-ASIDE UTILIZATION 1998 GRANT AWARD As of June 30, 2005				
	Technical Assistance	Program Management	Local Assistance	Total
ALLOCATED	\$866,754	\$572,330	\$3,871,843	\$5,310,927
CUMULATIVE OBLIGATED	\$866,754	\$572,330	\$3,871,843	\$5,310,927
% OBLIGATED	100%	100%	100%	100%
EXPENDED	\$866,754	\$572,330	\$3,871,843	\$5,310,927

SET-ASIDE UTILIZATION 1999 GRANT AWARD As of June 30, 2005				
	Technical Assistance	Program Management	Local Assistance	Total
ALLOCATED	\$291,272	\$105,149	\$198,816	\$595,237
CUMULATIVE OBLIGATED	\$291,272	\$105,149	\$198,816	\$595,237
% OBLIGATED	100%	100%	100%	100%
EXPENDED	\$291,272	\$105,149	\$198,816	\$595,237

SET-ASIDE UTILIZATION 2000 GRANT AWARD As of June 30, 2005				
	Technical Assistance	Program Management	Local Assistance	Total
ALLOCATED	\$302,716	\$239,902	\$143,790	\$686,408
CUMULATIVE OBLIGATED	\$302,716	\$239,902	\$143,790	\$686,408
% OBLIGATED	100%	100%	100%	100%
EXPENDED	\$75,869	\$239,902	\$143,790	\$459,561

SET-ASIDE UTILIZATION 2001 GRANT AWARD As of June 30, 2005				
	Technical Assistance	Program Management	Local Assistance	Total
ALLOCATED	\$166,028	\$261,075	\$742,250	\$1,169,353
CUMULATIVE OBLIGATED	\$166,028	\$261,075	\$742,250	\$1,169,353
% OBLIGATED	100%	100%	100%	100%
EXPENDED	\$0	\$261,075	\$742,250	\$1,003,325

SET-ASIDE UTILIZATION 2002 GRANT AWARD As of June 30, 2005				
	Technical Assistance	Program Management	Local Assistance	Total
ALLOCATED	\$96,368	\$611,036	\$352,002	\$1,059,406
CUMULATIVE OBLIGATED	\$25,824	\$611,036	\$352,002	\$988,862
% OBLIGATED	26.8%	100%	100%	93.3%
EXPENDED	\$0	\$611,036	\$162,366	\$773,402

SET-ASIDE UTILIZATION 2003 GRANT AWARD As of June 30, 2005				
	Technical Assistance	Program Management	Local Assistance	Total
ALLOCATED	\$85,540	\$1,001,945	\$352,000	\$1,439,485
CUMULATIVE OBLIGATED	\$0	\$1,001,945	\$124,361	\$1,126,306
% OBLIGATED	0%	100%	35.3%	78.2%
EXPENDED	\$0	\$1,001,945	\$0	\$1,001,945

SET-ASIDE UTILIZATION 2004 GRANT AWARD As of June 30, 2005				
	Technical Assistance	Program Management	Local Assistance	Total
ALLOCATED	\$0	\$1,021,084	\$344,000	\$1,365,084
CUMULATIVE OBLIGATED	\$0	\$1,021,084	\$0	\$1,021,084
% OBLIGATED	0%	100%	0%	74.8%
EXPENDED	\$0	\$912,283	\$0	\$912,283

SET-ASIDE UTILIZATION 2005 GRANT AWARD As of June 30, 2005				
	Technical Assistance	Program Management	Local Assistance	Total
ALLOCATED	\$0	\$1,144,960	\$444,000	\$1,588,960
CUMULATIVE OBLIGATED	\$0	\$1,144,960	\$0	\$1,144,960
% OBLIGATED	0%	100%	0%	72%
EXPENDED	\$0	\$0	\$0	\$0

SET-ASIDE UTILIZATION CUMULATIVE ALL GRANTS As of June 30, 2005				
	Technical Assistance	Program Management	Local Assistance	Total
* ALLOCATED	\$1,808,678	\$4,957,481	\$6,448,701	\$13,214,860
CUMULATIVE OBLIGATED	\$1,652,594	\$4,957,481	\$5,433,062	\$12,043,137
% OBLIGATED	91.4%	100%	84.3%	91.1%
EXPENDED	\$1,233,895	\$3,703,720	\$5,119,065	\$10,056,680

3. Construction Project Loan Assistance Status

ODW entered into loan agreements with 17 public water systems totaling \$10,654,508 during this reporting period. The loans range from \$111,043 to \$1,332,867. The loan terms range from 20 to 30 years, and the weighted average interest rate was 0.43%. The water systems receiving these loans serve 18,912 people; systems receiving these loans range in size from 13 to 8,660 people. Cumulative loan closings are 121 totaling \$127,723,880. In the 1997 through 2005 IUPs, VHD identified 148 construction projects of which 27 projects are still targeted and 121 have closed. We disbursed \$12,103,474 in DWSRF Program project loans during this reporting period (**See Table 2**). **Table 4** lists the new loan agreements for this reporting period and provides a brief description of each project.

TABLE 4: LOAN AGREEMENTS FOR THIS REPORTING PERIOD**Projects Funded by Capitalization Grant Only**

Priority Ranking	Project Name	Binding Commitment Date	Loan Amount	Grant Amount	Total Amount	Interest Rate	No. of Years	Project Description	Population Served	Small System	Disad. Community	Private PWS	Create New PWS
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2002 IUP

12	St Charles/ Virginia Lee	9/24/04	\$130,000	\$0	\$130,000	1.5%	25	Inadequate individual water supplies in the Virginia Lee community, just outside the town on St. Charles, plus one storage tank needs renovating and repairs are needed to a booster pump station which serves approximately half of the Authority's customers.	750	YES	YES	NO	NO
22	Big Stone Gap- Norton	6/16/05	1,148,460	\$86,762	\$1,235,222	0%	30	The Town of Big Stone Gap does not have a reliable water source. The existing dam is deteriorating and must be replaced to provide a more reliable impoundment for the Big Stone Gap water treatment plant. The City of Norton also has a low accountability within their water system. Several homes between Norton and Big Stone Gap have inadequate individual water supplies and will be picked up by this interconnection.	8,660	YES	YES	NO	NO

2003 IUP

5	Valley Ridge	2/11/05	\$250,000	\$0	\$250,000	3%	20	Spring determined to be groundwater under direct influence of surface water. This spring serves a high school, dialysis center, and approximately 179 residential connections.	489	YES	NO	NO	NO
23	Back Valley/ Carbo	8/31/04	\$661,019	\$563,091	\$1,224,110	0%	30	Inadequate quality and quantity from private individual water supplies.	168	YES	YES	NO	NO

2004 IUP

1	West Stockton Street	7/29/04	\$337,660	\$0	\$337,660	0%	20	Deteriorated water lines with low pressure and flow.	2,271	YES	YES	NO	NO
3	Gate City	12/17/04	\$266,562	\$266,562	\$533,124	0%	30	Water accountability problems and unreliable well and springs.	2,073	YES	YES	NO	NO
4	Drill Mountain	3/10/05	\$556,538	\$41,890	\$598,428	0%	30	Inadequate quality and quantity from private individual water supplies.	336	YES	YES	NO	NO
15	Black Hollow Road	1/26/05	\$545,503	\$0	\$545,503	3%	20	Inadequate quality and quantity from private individual water supplies.	120	YES	NO	NO	NO
17	Mabe/Stanleytown	8/11/04	\$323,904	\$225,085	\$548,989	0%	30	Inadequate quality and quantity from private individual water supplies.	315	YES	YES	NO	NO
18	Martin Farm Road	8/24/04	\$111,043	\$0	\$111,043	3%	20	Inadequate quality and quantity from private individual water supplies.	13	YES	NO	NO	NO

19	Dry Creek	10/22/04	\$96,391	\$144,588	\$240,979	0%	30	Inadequate quality and quantity from private individual water supplies.	38	YES	YES	NO	NO
27	Robbins Chapel	5/27/05	\$426,517	\$906,350	\$1,332,867	0%	30	Inadequate quality and quantity from private individual water supplies.	277	YES	YES	NO	NO
28	Big Hill	4/29/05	\$413,889	\$0	\$413,889	0%	30	Inadequate quality and quantity from private individual water supplies.	202	YES	YES	NO	NO
32	Boozy Creek	2/9/05	\$542,227	\$0	\$542,227	0%	30	Inadequate quality and quantity from private individual water supplies.	296	YES	YES	NO	YES

2005 IUP

9	Clifffield	6/17/05	\$349,988	\$445,440	\$795,428	0%	30	Inadequate quality and quantity from private individual water supplies.	144	YES	YES	NO	NO
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Subtotal Capitalization Grant			\$6,159,701	\$2,679,768	\$8,839,469								
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Projects Funded from Excess State Match

2003 IUP

Priority Ranking	Project Name	Binding Commitment Date	Loan Amount	Grant Amount	Total Amount	Interest Rate	No. of Years	Project Description	Population Served	Small System	Disad. Community	Private PWS	Create New PWS
18	Claypool Hill/ Wardell	6/17/05	\$1,259,399	\$0	\$1,259,399	0%	30	Older water treatment plant needs modernization and equipment upgrade.	2,665	YES	YES	NO	NO

2004 IUP

Priority Ranking	Project Name	Binding Commitment Date	Loan Amount	Grant Amount	Total Amount	Interest Rate	No. of Years	Project Description	Population Served	Small System	Disad. Community	Private PWS	Create New PWS
21	Gun Club	8/24/04	\$555,640	\$0	\$555,640	3%	20	Inadequate quality and quantity from private individual water supplies.	95	YES	NO	NO	NO

Subtotal Excess State Match			\$1,815,039	\$0	1,815,039								
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Total Loan Agreements			\$7,974,740	\$2,679,768	\$10,654,508								
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Binding Commitment

On a cumulative basis, loan closings total \$127,723,880 which is 83.4% of targeted loan funds from 8 grant awards. We have targeted \$139 million in loans, have loan recipient acceptance letters for \$136 million, and have \$127.7 million in loan closings. As a condition of the Assistance Agreement, ODW is required to enter into binding commitments equaling the amount of grant payments and state match within one year after ODW receives a grant payment. **Appendix A** tracks the progress toward achievement of this requirement.

State Fiscal Year	# of Binding Commitments	Amount
1998	1	\$ 4,000,000
1999	3	\$ 8,000,000
2000	15	\$ 15,114,517
2001	20	\$ 24,584,781
2002	30	\$ 33,827,968
2003	19	\$ 19,875,065
2004	16	\$ 11,667,041
2005	17	\$ 10,654,508
Total	121	\$127,723,880

Disbursements for Projects

We have disbursed \$118.2 million – 77.2% of all targeted loan funds and 92.6% of all committed loan funds. A total of \$22,628,761 in state matching funds is included in the disbursements.

Project Bypass

For the 2004 IUP fundable list, the Town of Pound's Water System Improvement (Project #02-04) withdrew during the reporting period because the project would place too much fiscal stress on the Town. From the 2005 IUP fundable list, the Piney River Water Line Extension (Project #10-05) withdrew as USDA Rural Development funding was secured for this project.

Small Systems That Will Benefit

ODW plans to commit a total \$14.1 million (100%) of the project funds from the 2005 IUP to small systems. As of June 30, 2005, all but one closed project (Project #04-98 – Washington/Chilhowie) for \$1,333,975 has been to a small system.

Disadvantaged Community Systems

TABLE 5: STATUS OF DISADVANTAGED ASSISTANCE AS OF JUNE 30, 2005					
Fiscal Year	Total Award	30% Limit	Amount of Disadvantaged Subsidy Provided	% Provided to Disadvantaged Systems	Remaining Balance
97	\$29,442,400	\$ 8,832,720	\$ 8,467,947	95.9%	\$ 364,773
98	\$13,895,300	\$ 4,168,590	\$ 4,168,500	100.0%	\$ 90
99	\$14,563,600	\$ 4,369,080	\$ 4,369,080	100.0%	\$ 0
00	\$15,135,800	\$ 4,540,740	\$ 4,503,836	99.2%	\$ 36,904
01	\$15,198,400	\$ 4,559,520	\$ 4,444,513	97.5%	\$ 115,007
02	\$11,127,600	\$ 3,338,280	\$ 3,338,280	100%	\$ 0
03	\$11,060,700	\$3,318,210	\$ 1,367,857	41.2%	\$ 1,950,353
04	\$11,473,900	\$3,442,170	\$ 2,197,537	63.8%	\$ 1,244,633
05	\$11,449,600	\$3,434,880	\$ 445,440	13.0%	\$ 2,989,440
Total	\$133,347,300	\$40,004,190	\$33,302,990	83.3%	\$ 6,701,200

During this reporting period, ODW closed 13 loans totaling \$9.2 million to systems serving disadvantaged communities. These loans included loan forgiveness of \$2.7 million. To date ODW has provided loan forgiveness of \$33.3 million.

4. Coalfield Water Development Fund

The Coalfield Water Development Fund, Inc. (CWDF) is a non-profit charitable organization that provides grant assistance for waterworks construction in Planning Districts 1 and 2 which includes the counties of Lee, Scott, Wise, Dickenson, Russell, Tazewell, Buchanan and the City of Norton. Four loans totaling \$10 million have been made to the CWDF to set up a regional endowment using funds from Virginia's DWSRF Program. The loans to CWDF are at an interest rate of 0% for 30 years with a balloon payment of principal due at the end of the period. Virginia is the only state designated to establish an endowment fund. The loan principal is held in trust to earn dividends and interest and the endowment income is used to make construction grants in Planning Districts 1 and 2 of Southwest Virginia.

Due to a decline in the market, the CWDF Board voted to not offer grant funds for fiscal years 2004 and 2005. ODW, EPA, and the CWDF Board have been working together and have modified the spending policy to allow the CWDF to increase grant-making. The CWDF is currently soliciting applications through October 6, 2005 for \$215,000 in grant funding.

ODW performed an on-site review of the CWDF in February 2004. The on-site review covering the reporting periods ending June 30, 2004 and June 30, 2005 is scheduled for November 2005. ODW has not performed the on-site review of the CWDF for the reporting period ending June 30, 2004 because of staffing constraints and the limited amount of activity of CWDF.

IV. FINANCIAL SUMMARY

A. Status of Loans

We have closed \$127.7 million in loans as of June 30, 2005.

B. Loan Disbursements/Cash Draw Proportionality

ODW expended \$2,945,605 in state match during this reporting period. \$415,474 of this match was for the 2001 grant and \$653,505, was for the 2002 grant and \$1,876,626 was 2003 grant. In addition, \$105,572 was disbursed from loan repayments. ODW calculates the proportionate federal share using the grant by grant basis. See **Appendix B** for detailed loan disbursements.

C. Set-Aside Disbursements

We have disbursed \$2 million in set-aside funds during this reporting period. **Table 2** breaks out the disbursements by set-aside activity.

D. Annual Repayment/Aging of Account

The DWSRF program received \$2,465,520 in principal repayments and \$505,553 in interest repayments during this reporting period.

E. Loan Portfolio Analysis

For the 17 loans that closed during this reporting period, none of the recipients were rated. The entire loan portfolio balance is not rated.

F. Financial Statements

The 2005 audited financial statements of our “State Loan Fund,” the Virginia Water Supply Revolving Fund which is maintained at the Virginia Resources Authority has not been issued. A copy of the audit report will be forwarded to EPA.

V. COMPLIANCE WITH AGREEMENTS

ODW has complied with a number of conditions in the Grant Agreement, unless noted otherwise. We have met and continue to be in compliance with the following conditions:

- Establish state authority
- Comply with applicable state laws and procedures
- Review technical, financial, and managerial capacity of assistance recipients
- Establish State Loan Fund account, set-aside account, and administration account
- Deposit all funds in appropriate accounts
- Follow state accounting and auditing procedures
- Require loan recipient accounting and auditing procedures
- Submit IUP and use all funds in accordance with the plan
- Comply with enforceable requirements of the Act
- Establish capacity development authority
- Implement/maintain system to minimize risk of waste, fraud, abuse, and corrective action
- Develop and submit project priority ranking system

We more fully discuss and have met the following conditions.

A. Binding Commitments Within One Year

ODW entered into binding commitments within one year of receipt of the ACH payments for all four quarters during this reporting period. ODW has taken aggressive action to address previous non-compliance with this requirement, which is evidenced by the fact we are in compliance for the ending reporting period. **Appendix A** tracks our progress towards achieving this goal.

B. Deposit State Matching Funds

ODW expended \$2,945,605 in state match during this reporting period. See **Appendix B** which demonstrates that the required state match was achieved. Cumulative state match appropriation as of June 30, 2005 was \$31,723,180.

C. Submit Biennial Report and Annual Audit

ODW elected to prepare an annual report for fiscal year 2005 even though it was an off year and is not required.

The State's Auditor of Public Accounts (APA) conducts an annual statewide single audit for the Commonwealth of Virginia in accordance with OMB Circular A-133. The APA does not plan to audit the DWSRF program as a "Major Federal Program" for the fiscal year ended June 30, 2005. A private CPA firm is engaged by the APA to perform an annual audit of the construction State Loan Fund.

D. Assure That Borrowers Have Dedicated Source of Repayment

Detailed financial analyses and credit summaries are performed for each applicant prior to entering into a loan commitment. Each loan recipient must also establish one or more dedicated sources of revenue for repayment of the loan. Dedicated sources of revenue can be water and/or sewer revenue pledges, general tax pledges or a combined pledge of revenues and full faith and credit.

E. Ensure Recipients Compliance with Applicable Federal Cross-Cutting Authorities

VHD has established monitoring methods to ensure compliance with federal cross-cutting requirements. Interim project evaluations are conducted on-site on a monthly basis. In addition, administrative/financial reviews are conducted during the course of each project at specified intervals. We see no problem in complying with federal cross-cutting requirements and are prepared to continue our monitoring efforts to ensure compliance.

For the 1998 grant award, the MBE goal was 2% and the WBE goal was 1.5%. Beginning with the 1999 grant award, we studied the availability of contractors in this field to establish the MBE and WBE goals. These goals range from 0.8% to 2.6% for MBE and 0.6% to 1.5% for WBE. For the reporting period ending June 30, 2005, we achieved .06% of the MBE goal and 7.16% of the WBE goal.

F. Conduct Environmental Reviews

The 17 public water systems receiving assistance during state fiscal year 2005 were reviewed and approved using the state's environmental review procedures. It was determined that no Environmental Impact Statements were necessary. Five projects qualified for a Categorical Exclusion because there was no impact on the environment. For the remaining twelve projects, an Environmental Assessment was prepared and a Finding of No Significant Impact was issued.

G. Implement Capacity Development Strategy

ODW continued the contract with the Southeast Rural Community Assistance Project, Inc. to provide hands-on assistance in developing Comprehensive Business Plans for existing waterworks. ODW requested the focus to be on the completion of Comprehensive Business Plans for the highest priority waterworks. Those identified were SNC's, disadvantaged waterworks, new waterworks, waterworks serving less than 3,300 persons and those ranking high on the loan application list.

Appendix A

Appendix B

Appendix C

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